HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Kingston CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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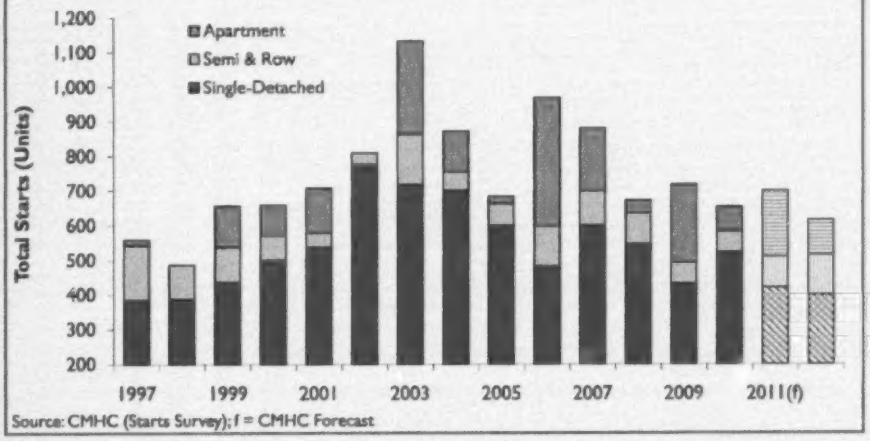
Market at a Glance

- Kingston's existing home sales are forecast to moderate in the next few months before recovering in the second half of 2012 as the local economy improves.
- Given the strong performance in the first half of 2011, expect a 4.5 per cent growth in existing home prices by year-end. In 2012, however, the resale home average price will grow at a slower rate as the number of new-listings outpaces the number of sales.
- The Kingston Census Metropolitan Area (CMA) total housing starts will reach 700 units by the end of 2011, due to strong rental demand that prompts builders to increase the level of apartment construction. Looking ahead, total housing starts in Kingston are anticipated to adjust in accordance with long-term demographic requirements.

Figure 1

Kingston's Housing Starts will Mirror Demographics



Source: CMHC (Starts Survey); f = CMHC Forecast

*The forecasts included in this document are based on information available as of October 5, 2011.

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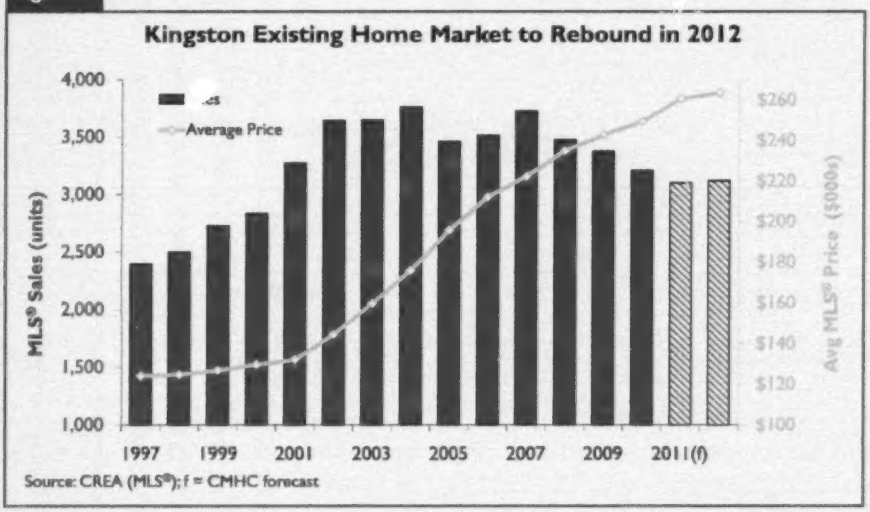
Figure 2



Resale Homes Market

Resale Transactions to Rebound in 2012

CMHC expects the fourth quarter resale activity in the Kingston CMA to moderate, pulling down the total sales volume for 2011. However, existing home sales in Kingston are anticipated to rebound next year as the local economic recovery gains traction. Healthy full-time employment growth along with historically low mortgage rates should help sustain Kingston's resale market activity in 2012. According to CMHC's latest projection, interest rates will hover around their current low levels through 2012.

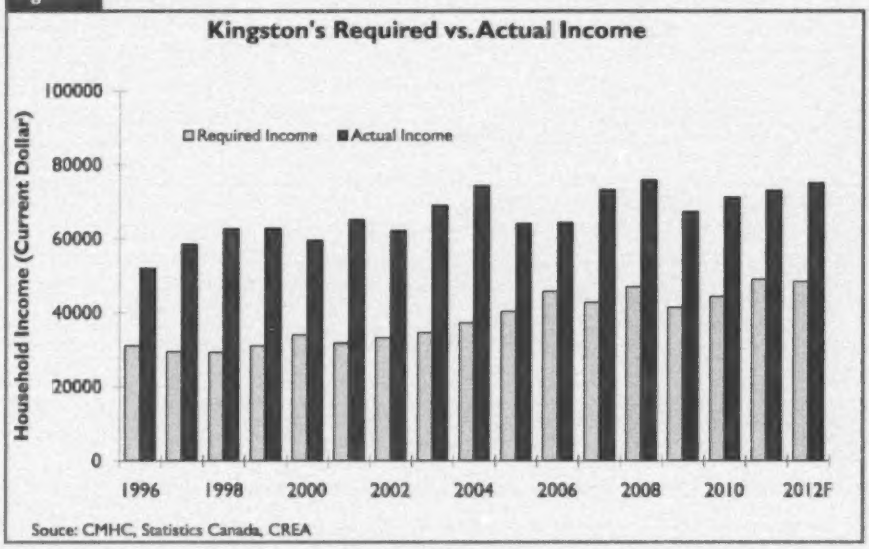
More Balanced Market Conditions Will Slow Price Growth

Following a rebound from its recessionary lows, the Kingston existing home market has recorded strong price gains since the second half of 2009 through the summer of this year. With more new listings coming onto the market thereby outpacing the number of sales, price increases will not be as brisk in 2012.

As a leading predictor of future average MLS® price gains, the current sales-to-new listings ratio (SNLR) is pointing towards a more balanced market condition in the entire Kingston CMA. Since June 2009, the SNLR has been held firmly between the sellers' territory and the upper boundary of a balanced market. By the end of 2011 and into early 2012, we anticipate the number of new listings to reach a new high, which in turn will further pull down the sales-to-new listings ratio. A consistent drop in the ratio generally suggests a future moderation in existing home average price growth – a condition that underscores our expectation for 2012.

Continued moderation in Kingston's home price growth coupled with steady income gains, homeownership affordability in the CMA is poised to improve next year. According to the latest CMHC calculation, required income to buy a home in Kingston is projected to slightly decline relative to the actual income for the average household – this will attract some first time homebuyers into the market.

Figure 3



Required income is mortgage carrying costs divided by 0.32 to reflect the usual 32 per cent gross debt service ratio. Mortgage carrying costs are calculated based on 10 per cent down payment, the fixed five-year mortgage rate and the longest available amortization for a mortgage loan.

New Homes Market

Total Housing Starts Will Mirror Demographic Requirements

Housing starts for single-detached units are projected to fall gradually to a level consistent with changes in household formation. As a forward looking indicator, the level of building permits for this type of dwelling is down, suggesting a contraction in construction activity at least in the near term. Declining construction intention is a result of a more balanced resale market. The increase in new listings in the resale market provides more choice for homebuyers and this in turn reduces the spill-over demand into the new home market, particularly the demand for single-detached housing which may be considered more expensive. In 2012, although rental construction will abate, ownership housing demand for smaller units will remain healthy – supported by first time buyers.

New Semi-Detached and Row Units Gaining Traction

Semi-detached and row housing starts in Kingston will remain relatively high in the next two years, as this type of dwellings attract more first-time homebuyers. Generally, slow economic and job market activity will translate into a shift in consumer preference away from single-detached homes to less expensive row/townhomes and semis. Meanwhile, rental apartment starts will increase in 2011 before retreating next year – as developers focus on the completion of units currently under construction. However, a higher inflow of migrants into Kingston should partially absorb the newly completed rental units coming onto the market. Typically, immigrants tend to lack the credit history and savings to jump into the ownership market and as a result move into rental accommodation upon arriving in Canada. On balance, Kingston's average apartment vacancy rate will remain flat in 2012.

Local Economy

Expect a Slow but Stable Employment Growth in 2012

Kingston should expect mild economic growth next year, as employment slows in the public administration sector. Employment in the CMA is forecast to grow modestly by about one per cent in 2012. Nonetheless, such growth rate is considered an improvement from the sluggish economic performance the area has experienced in the past three years. As a measure of recent economic improvements, the employment-to-population ratio advanced in September 2011 when compared to the same period last year. More specifically, the ratio increased to about 61 per cent from 59 per cent in September 2010. It should be noted that the employment-to-population ratio is a better measure of the job market because, unlike the unemployment rate, it's not affected by changes in the size of the labour force.

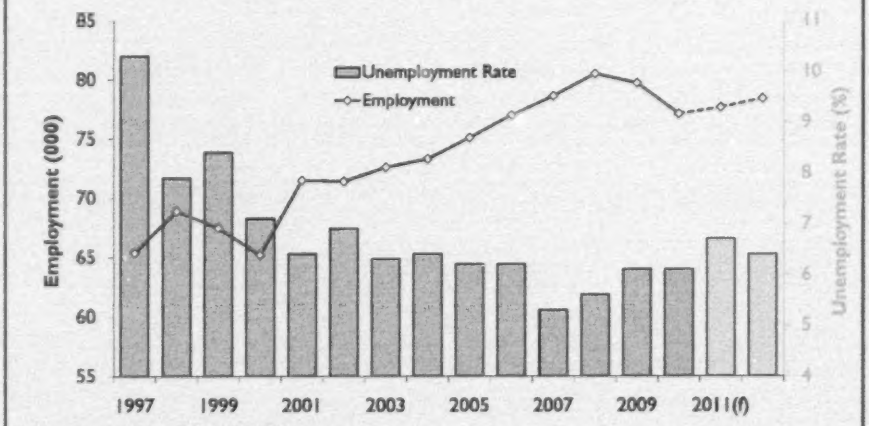
Meanwhile, the pace of growth for the labour force is expected to outpace employment, as more Kingstonians are encouraged to re-enter the job market. Consequently, the unemployment rate will inch up slightly in 2011 before returning to its long term level in 2012. Nevertheless, Kingston's unemployment rate will continue to trend below the provincial and national averages. Undoubtedly, this low level of unemployment rate in Kingston will continue to attract additional residents into the area – keeping demand for housing relatively healthy.

Kingston to Attract Baby-boomers

In the next few years, Kingston will continue to experience population growth fuelled by baby boomers that are moving into the CMA to enjoy modest urban lifestyle. According to data from Statistics Canada, in recent years, Kingston has been benefiting from positive inter-provincial and

Figure 4

Slow but Stable Employment Growth Expected in 2012



Source: Statistics Canada; f = CMHC Forecast

intra-provincial migration. A high proportion of these migrants come from the 45 to 64 age group. Given the upward trend in Kingston's migration activity, net migration in the CMA is projected to add on average approximately 1,000 new residents annually for the next five years.

Mortgage rate outlook

Recent announcements by the Bank of Canada have indicated that the Bank will be leaving the target overnight interest rate unchanged at 1.0 per cent for some time to come. The Bank has been noting that in light of slowing global economic momentum and heightened financial uncertainty, the need to withdraw monetary policy stimulus has diminished. The last increase in the overnight interest rate occurred on September 8, 2010 when the Bank of Canada raised it by 25 basis points. Mortgage rates, particularly short term mortgage rates and variable mortgage rates, are expected to remain at historically low levels.

According to CMHC's base case scenario, posted mortgage rates will remain relatively flat until late 2012. For 2012, the one-year posted mortgage rate is expected to be in the 3.4 to 3.8 per cent range, while the five-year posted mortgage rate is forecast to be within 5.2 to 5.7 per cent.

Forecast Summary Kingston CMA Fall 2011							
	2008	2009	2010	2011f	% chg	2012f	% chg
Resale Market							
MLS® Sales	3,473	3,377	3,209	3,100	-3.4	3,120	0.6
MLS® New Listings	7,281	6,259	6,286	6,450	2.6	6,750	4.7
MLS® Average Price ($)	235,047	242,729	249,509	260,700	4.5	263,600	1.1
New Home Market							
Starts:							
Single-Detached	546	432	522	420	-19.5	400	-4.8
Multiples	126	285	131	280	113.7	215	-23.2
Semi-Detached	48	20	24	30	25.0	40	33.3
Row/Townhouse	41	41	37	60	62.2	75	25.0
Apartments	37	224	70	190	171.4	100	-47.4
Starts - Total	672	717	653	700	7.2	615	-12.1
Average Price ($):							
Single-Detached	266,145	258,693	269,153	283,000	5.1	288,000	1.8
Semi-Detached	194,100	209,888	207,794	-		-	
Median Price ($):							
Single-Detached	260,000	254,900	269,300	275,000	2.1	281,500	2.4
Semi-Detached	197,600	199,900	190,000	-		-	
New Housing Price Index (% chg) (Ont.)	3.5	0.1	2.4		-		-
Rental Market							
October Vacancy Rate (%)	1.3	1.3	1.0	1.2	0.2	1.6	0.4
Two-bedroom Average Rent (October) ($)	880	909	935	960	2.7	980	2.1
Economic Overview							
Mortgage Rate (1 year) (%)	6.70	4.02	3.49	3.60	-	3.56	-
Mortgage Rate (5 year) (%)	7.06	5.63	5.61	5.42	-	5.43	-
Annual Employment Level	80,500	79,700	77,100	77,650	0.7	78,400	1.0
Employment Growth (%)	0.0	0.0	0.0	0.7	-	1.0	-
Unemployment rate (%)	5.6	6.1	6.1	6.7	-	6.4	-
Net Migration [1]	1,001	1,189	1,520	1,200	-21.1	1,300	8.3

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over
(1) 2011 and 2012 migration numbers are forecasts

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